BS350-2 5/19/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 7, 1982 VOLUME XIX, NUMBER 23

Boom Times Ahead?

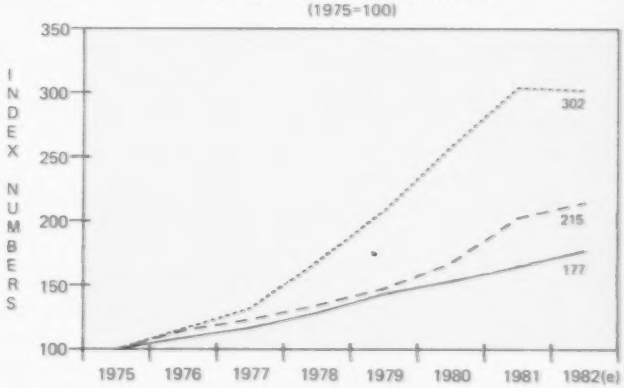
Of all the economic and financial surprises occurring in recent months, one of the more enjoyable is the glimmer of recovery now being spotted on the horizon. For once, this apparent change in economic activity will coincide with widely-voiced predictions that the economy would rebound around midyear. As if on cue, the index of leading economic indicators rose 0.8 per cent in April, the first monthly increase in a year. Although this development is not in itself sufficient to mark an end to the current recession, an upturn in this index has always preceded or coincided with recovery in the postwar years. And since this usually occurs about a month or two prior to the bottom of a business downturn (Financial Digest—May 10, 1982), an end to the current recession may not be too far away.

To be sure, a look at the latest batch of weekly and monthly statistics still points toward substantial economic weakness—although it does appear that in many instances the pace of decline has slowed. In the automobile industry, for example, new domestic car sales ran at a seasonally adjusted 6.3 million unit annual rate in May, lackluster by historical standards but better than the weak April total of under 5.5 million units. And, with sales stimulated by an array of buyer incentive programs, auto production itself has finally begun to stir. During the week ending May 22, production totaled 135,405 units, 16½ per cent below year-earlier levels. This was a sizable improvement over the mid-April output level of 117,635 units, which was almost 30 per cent below the year before.

Hardly Likely

Whether these trends can be sustained or not is not yet clear. Affordability remains a significant deterrent to new auto sales. Prices have escalated (the average price of a new car sold domestically stood a shade below $9,000 in 1981, almost double the 1975 level) and auto loan interest rates remain at lofty heights (more than 17 per cent, on average, during first-quarter 1982). These factors have combined to produce a steep rise in the monthly payment associated with the purchase of a new automobile. Since 1978, for example, when domestic auto sales peaked at 9.2 million units, the monthly payment required to service a three-year auto loan with a 25 per cent down payment has risen by a huge 60 per cent—dwarfing the much more modest 25 per cent rise in median family income during the period. Not surprisingly, new domestic auto sales have been ratcheting lower ever since.

AVERAGE MONTHLY MORTGAGE PAYMENT (DOT) AND AVERAGE MONTHLY AUTO LOAN PAYMENT (DASH) VS. MEDIAN FAMILY INCOME (LINE) (1975=100)



Sustained or not, one industry which would welcome even a limited uptick is housing. With an even worse combination of high prices and lofty finance charges deterring prospective home buyers, an upturn in the housing industry appears remote. Because mortgage interest rates are still hovering well above 17 per cent and the median sales price of new single-family homes reached more than $72,000 in April, the monthly payment required to service a 25-year conventional mortgage loan with a 25 per cent down payment now exceeds $800—too much for the vast majority of American families to bear (Financial Digest— March 8, 1982). As a result, new single-family homes sold at a seasonally adjusted 315,000 unit annual rate in April, the lowest level on record, while the number

Copyright 1982
Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

of housing starts has plummeted well below the one million unit annual rate level.

But The Rate Of Descent . . .

With two of the major engines of real GNP growth firing erratically, numerous other industries continue to grope for a firmer footing. For some, the recession shows few signs of abating—and probably will not until factory orders, which fell again in April, turn around. But for others, the rate of output decline has at least moderated. Among the former is the steel industry. Year-over-year comparisons of total output still suggest only a worsening, not an improving picture. As of the third week in May production was down more than 43 per cent compared with year-earlier levels, even worse than the dismal output totals of mid-April, when production was off about 40 per cent on a year-over-year basis. Less than one-half of the steel industry's capacity is now being utilized, while the rate of unemployment among steel workers has soared above 15 per cent.

In the paperboard industry, however, year-over-year output declines have narrowed. Paperboard production, used for packaging most goods, thus indicative of eventual shipment levels, usually begins to rebound in advance of the rest of the economy.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/26/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	138.424	– .400	+ 9.592
Loans to Depository Inst.	1.054	+ .091	– 1.856
Float	1.890	+ .113	– .469
Total Reserve Bank Credit	149.846	– .957	+ 5.881
Treasury Deposits with Federal Reserve Banks	3.023	– .099	+ .193
Currency Outside Banks	129.812	– .203	+ 7.238
Member Bank Reserves:			
Required	38.942	– .347	– .889
Excess (Deficiency)	.033	– .427	– .330
Total Reserves Held	38.975	– .774	– 1.219
Net Borrowed Reserves	.763	+ .492	– 1.475
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.885	– 1.007	– 6.631

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	451.5	+ 3.8‡	+ 5.0‡
M2 (April '82)	1,879.7	+ 8.4	+ 9.1
M3 (April '82)	2,256.5	+ 9.5	+ 10.3
L (January '82)	2,658.6	+ 9.1	+ 10.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 6/4/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.95%	12.03%	12.00%
* Federal Agencies	12.82	12.92	13.10
* Project Notes—Taxfree (46% Taxable Equivalent)	13.80	13.98	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.80	13.85	14.20

‡Finance Company Paper—Prime	
5- 14 days	13.25%
15- 29 days	13.38
30- 59 days	13.25
60- 89 days	13.25
90-179 days	12.88
180-239 days	12.50
240-270 days	12.00

‡* Bankers' Acceptances	
Jul.	13.35%
Aug.	13.25
Sep.	13.25
Oct.	13.20
Nov.	13.10
Dec.	13.00

‡Industrial Paper—Prime	
30- 89 days	13.00%
90-120 days	12.63

†Federal Funds Effective Rate 13.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'82	$ 2,992	$ 2,998	$ 2,853
Gross National Product (1972 Dollars)*	1st Q'82	$ 1,482	$ 1,498	$ 1,516
Percent Change, Annual Rate	1st Q'82	– 4.3	– 4.5	8.6
Change in Consumer Prices (all urban consumers)*	Apr '82	2.4%	– 3.6%	4.8%
Change in Producer Prices*	Apr '82	1.2%	– 1.2%	10.8%
Civilian Employment (Thousands of Persons)†	May '82n	100,117	99,340	101,045
Unemployment as % of Civilian Labor Force†	May '82n	9.5%	9.4%	7.5%
Personal Income*	Apr '82	$ 2,531	$ 2,523	$ 2,354
Leading Indicators Composite Index (1967=100)†	Apr '82	125.2	124.2	137.3
Industrial Production Index (1967=100) †	Apr '82	140.7	141.5	151.9
Net Change in Consumer Installment Credit†	Mar '82	$ 0.99	$ 0.08	$ 2.97
U.S. Merchandise Trade Balance †	Apr '82	–$ 0.32	–$ 2.64	–$ 3.48
Plant and Equipment Expenditures*	2nd Q'82	$336.77(a)	$345.46(a)	$316.73
Private Housing Starts (Thousands of Units)*	Apr '82	881	941	1,301
New Construction Expenditures*	Apr '82n	$ 232.8	$ 234.2	$ 246.5
Total Business Inventories†	Mar '82	$ 505.9	$ 508.3	$ 487.7
Total Business Sales†	Mar '82	$ 343.4	$ 343.4	$ 350.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

And, here, whereas production in the second full week of April was down almost 17 per cent year-over-year, by the second week in May it stood "only" 11.9 per cent below comparable period year-earlier levels. So too, somewhat more modest year-over-year output declines are now being posted in such industries as paper, lumber, electric utilities and transportation. Although hardly suggesting a surge in growth, the performance of these industries may at least be indicative that the rate of descent has slowed.

. . . May Have Slowed

It is even possible to find a glimmer of hope among the jobless statistics. To be sure, the unemployment rate edged up 0.1 per cent to 9.5 per cent—another postwar record—and 10½ million people are now looking for work but are unable to find it. However, employment rose as well. The Labor Department says that 777,000 more people were at work in May than in April, bringing the seasonally adjusted number of jobholders to 100.1 million—less than one million below the all-time record set exactly one year ago. What is more, two important advance indicators of future employment trends—the average workweek and overtime in the nation's factories—signalled good news. Overtime hours held steady, while the average workweek rose. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/19/82)	133,953	+ 336	+16,395
New York City (5/19/82)	35,162	+ 696	+ 6,655
Commercial Paper (5/19/82)	176,243	+ 127	+35,982

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (5/19/82)	207,495	+ 59	+32,124
New York City (5/19/82)	58,151	– 439	+ 7,195

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/19/82)	480,930	– 793	+48,545
New York City (5/19/82)	111,659	– 995	+ 9,700

Financial Markets

	Friday 6/4/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.50%	+ .45	– 4.07
180-Day Bills†	13.00	+ .45	– 3.00
Longest Bills†	13.30	+ .35	– 1.87
Recent Issues:			
13 3/4s 5/31/84	13.89	+ .34	
14s 3/31/86	13.90	+ .20	
13 3/4s 5/15/92	13.86	+ .21	
14s 11/15/11	13.58	+ .24	
Municipals:			
Bond Buyer–20 Bond Index* (6/3/82)	12.13%	+ .14	+ 1.54
Blue List Total ($ Million)	$1,191	+ $ 7	+ $371
30-Day Visible Supply ($ Million)	$2,352	+ $608	+ $185
Total	$3,543	+ $615	+ $556
Corporates:			
Moody's Aa Composite (6/3/82)	15.03%	+ .27	+ .31
30-Day Visible Supply ($ Million) ‡	$1,980	+ $140	NA
Stocks:			
Dow-Jones Averages:			
Industrials	804.98	– 14.56	– 188.81
Transportation	317.07	– 3.07	– 109.21
Utilities	110.52	– .57	+ 4.82
65 Stocks	315.49	– 4.21	– 68.34
Standard and Poor's 500 Stocks	110.09	– 1.79	– 22.01
N.Y.S.E. Composite Index	63.42	– 1.12	– 13.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	45,995	+ 1,453	– 8,045

* 46% Taxable equivalent 22.46%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

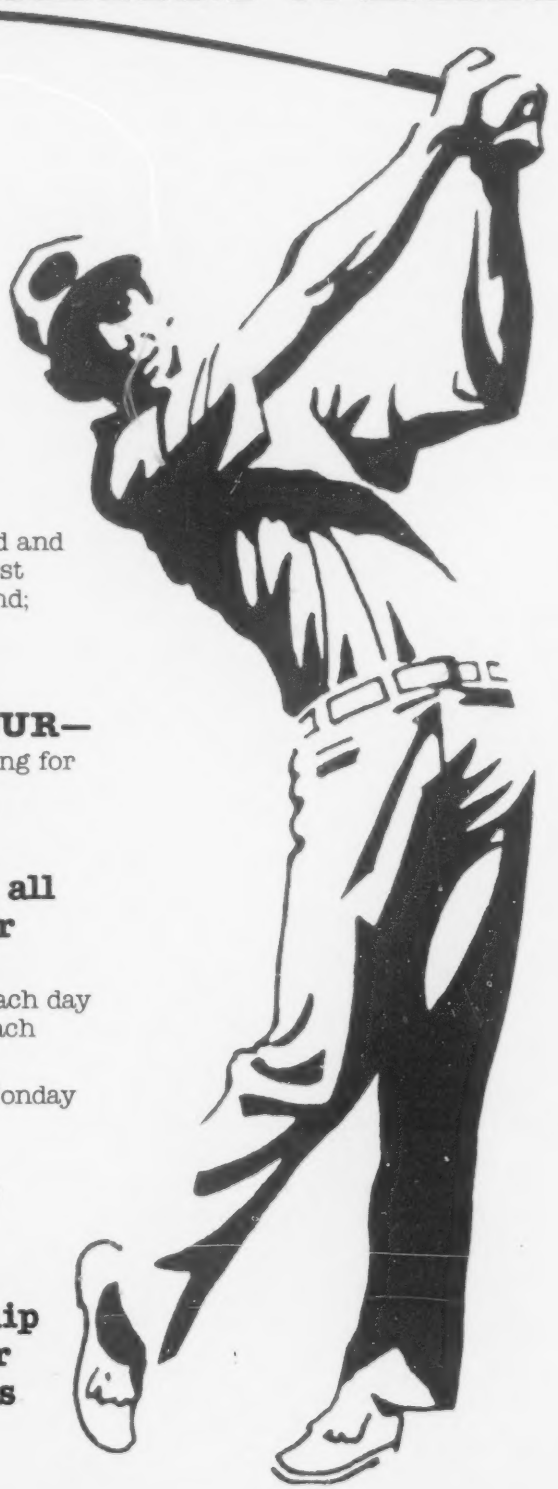
International Rates

	Friday 6/4/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.50%	14.00%
1 month	14.44	14.25
3 month	14.56	14.31
6 month	14.69	14.38
1 year	14.69	14.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.57%	14.45%
Long Term (7 to 15 yrs.)	14.70	14.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/4/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02246	44.53
Canada	.8010	1.2484
Denmark	.1236	8.0885
France	.1625	6.1550
Germany	.4247	2.3545
Italy	.0007637	1309.40
Japan	.004107	243.48
Mexico	.02112	47.35
Netherlands	.3831	2.6100
Switzerland	.4949	2.0208
U.K.	1.7962	.5567

GOLF FANS' DREAM WEEK



WHAT:
The Manufacturers Hanover Westchester Classic

WHERE:
Westchester Country Club, Harrison, New York

From New York City on the New England Thruway: Exit 20. From Connecticut: Exit 21. On the Cross Westchester Thruway, East: Exit 10

WHEN:
Monday, June 21, thru Sunday, June 27

Monday: Qualifying Round; Tuesday: Practice Round and Junior Golf Day; Wednesday: Pro-Am; Thursday: First Round; Friday: Second Round; Saturday: Third Round; Sunday: Final Round

WHO:
Many of the top pros on the PGA TOUR—

including Ray Floyd, defending champion—competing for $400,000 in prize money. Winner's purse: $72,000

HOW:
Tickets available at the gate and at all branches of Manufacturers Hanover in Westchester County

Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only)

WHY:
The opportunity to see championship golf and support the 11 Westchester hospitals that share in the proceeds

For ticket information, call 914-967-5356

SEE YOU THERE!

MANUFACTURERS HANOVER

MANUFACTURERS HANOVER TRUST COMPANY • Member FDIC